American Banker Weekly Review and Outlook

monday

PULL OUT AND SAVE

Nov. 15-Nov. 21

Card Issuers Blasted for High Rates

By DONALD SHOULTZ

Rep. Charles E. Schumer last week attacked the nation's largest credit card issuers as "usurious" and released a list of 30 card-issuing financial institutions that offer lower interest rates.

The largest credit card issuers charge interest rates ranging between 18% and 21%, and only one of the top 10 issuers, Manufacturers Hanover Trust Co. of New York, offers a rate under 18%, Mr. Schumer said. Manufacturers dropped its rate to 17.8% in October. The other large issuers charging 18% to 21% rates include Sears, Roebuck and Co.; Citicorp; Montgomery Ward; Bank of America; American Express; J.C. Penney; the First National Bank of Chicago; Chemical Bank; and Chase Manhattan Bank.

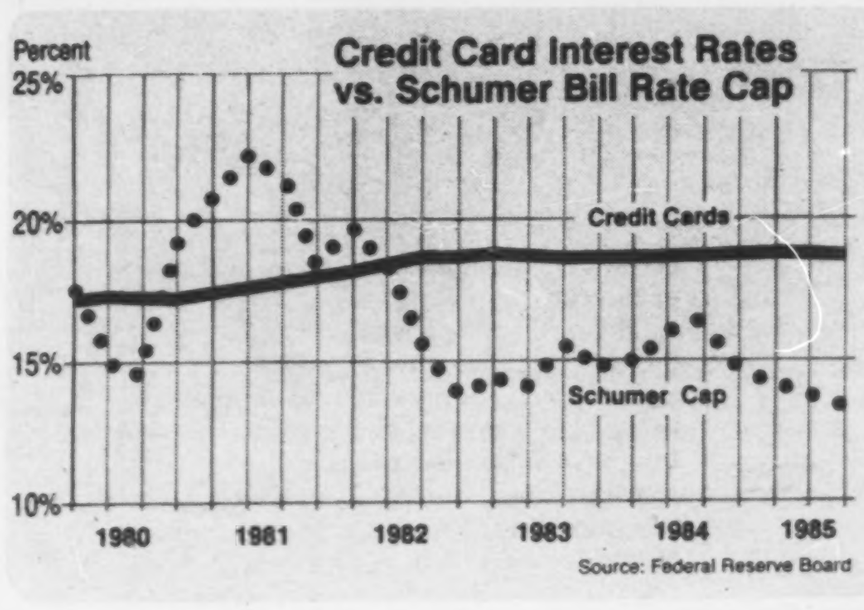
Mr. Schumer, a New York Democrat and member of the House Banking Committee, criticized these issuers for failing to lower their credit card rates when interest rates began falling. "Over the past five years, the cost of money has fallen, and the rate that banks and corporations pay for the money they lend out is now below 10%," he said. "But while the cost of money has fallen, the cost of credit cards has actually risen."

The list of the 30 "best buys" that Mr. Schumer released included interest rates ranging from 10.5%, offered by Dominion Bank in Vienna, Va., to 17.9% offered by Philadelphia National Bank in Wilmington, Del. Most of the issuers on the list offer rates in the 16% to 17% range. New York's Apple Bank for Savings, which last month introduced a Visa card with an annual interest rate of 15.8% and a $20 annual fee, was also on Mr. Schumer's list.

"It's a new product for us, but we're bringing it into a mature market," explained Anthony M. Ronda, Apple's vice president of marketing. "We wanted to give people a reason to switch to our card."

While most of the more than 2,700 financial institutions that issue credit cards charge from 18% to 21% on credit card balances, some institutions, especially thrifts such as Apple, were late getting into the credit card business, so they offer lower rates to gain market share. Others have targeted the most profitable cardholders — those who carry outstanding balances from month to month — and have structured low-rate cards to appeal to them. Some banks offer low rates through no choice of their own: State usury laws — in Arkansas and Washington, for example — cap interest rates.

The American Bankers Association said it applauded Mr. Schumer's attempt to inform consumers about lower interest rates. However, Kirk Willison, an ABA spokesman, rejected Mr. Schumer's allegation that the largest credit card issuers were charging usurious rates. The variety of rates available to consumers, Mr. Willison said, "shows that there's quite a bit of competition already out in the market." ■



Top 10 Credit Card Lenders

		Billions	Interest Rate
1	Sears, Roebuck and Co.	$11.62	21.0%
2	Citicorp	$ 4.83	19.8%
3	Montgomery Ward Stores	$ 4.22	21.6%
4	Bank of America	$ 3.30	19.8%
5	American Express Co.	$ 3.22	18.0%
6	J.C. Penney Stores	$ 3.21	21.0%
7	1st National Bank of Chicago	$ 2.32	19.8%
8	Chemical Bank	$ 1.62	19.5%
9	Chase Manhattan Bank	$ 1.61	19.8%
10	Manufacturers Hanover Trust	$ 1.25	17.8%

Source: The Nilson Report, company representatives

Step Aside, Banks: Thrifts Are Going Interstate, Too

Unusual Deals Planned in New England and West

By JEFFREY MARSHALL

Most of the noise on the interstate banking front has been made by big banking companies, but thrifts, increasingly, are making noise of their own. In two recent deals, in fact, thrifts are seeking federal regulatory approval for deals that would have been unheard of not long ago.

The first of these involves Citizens Financial Group Inc., a thrift holding company based in Providence, R.I. Citizens Financial, a strong performer, wants to pull a switch on the time-honored ploy of banks buying thrifts across state lines: It wants to buy a banking company, Capitol Bancorp., of Boston.

Citicorp, Security Pacific Corp., and a few other big banking firms have acquired or plan to acquire thrifts in states outside their home territory. In fact, Citicorp put another egg in its interstate basket earlier this month when it took over a failed thrift in Nevada, All State Thrift, and obtained a full-service bank charter in the process.

The architects of the Citizens-Capitol Bancorp. deal are expected to cite a 1984 Federal Reserve Board ruling allowing a bank holding company to buy a healthy state-chartered, stock savings bank. Two banking companies already are using that ruling to try to buy savings banks across state lines, but the Citizens-Capital deal is the first effort to gain approval for the reverse transaction.

Analysts say such bank-thrift unions make strategic sense because the industries have different earnings cycles and offer each type of institution an avenue to different kinds of markets.

James Jones

At least 10 thrifts or thrift holding companies have acquired or agreed to acquire savings institutions in other states so far in 1985.

State laws in Massachusetts and Rhode Island do not bar the deal, which is valued at $80 million in cash. Citizens is paying 2.35 times book value for Capital, which is being called one of the highest multiples ever paid in New England.

Across the country, Great American First Savings Bank of San Diego is seeking approval for a seemingly convoluted deal involving a troubled thrift in San Francisco and a healthy one in Arizona.

Great American says it has agreed to acquire United Bank SSB, San Francisco, an ailing institution that is the largest minority-owned thrift in the nation. But Great American says it would complete that deal only if it were also allowed to acquire Home Federal Savings and Loan Association of Tucson, Ariz.

And there's the rub. Under Federal Home Loan Bank Board policy, healthy thrifts can be acquired across state lines only if the acquirer has paid an "entry fee" by buying a failing thrift in the other state. ■

New Warning On Dividends

The Federal Reserve Board became the second regulator to warn troubled banks not to pay high dividends to stockholders. In a policy statement, the agency said banks with poor earnings should not pay out dividends that exceed their net income, nor pay stockholders dividends that weaken a bank's capital position or that can be funded only in ways that weaken its health.

Earlier this month, the Office of the Comptroller of the Currency issued a similar policy statement, telling the national banks it regulates that cash dividends on stock should be pegged directly to the bank's current and expected earnings streams.

On the heels of the warnings, Wells Fargo & Co., San Francisco, last week raised its quarterly dividend on common stock to 68 cents from 60 cents a share, marking the company's second stock dividend increase this year.

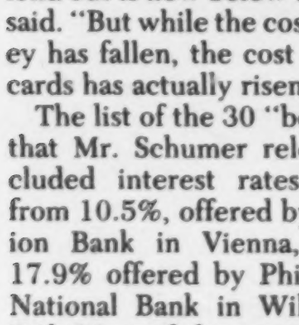
Wells chairman Carl E. Reichardt said that Wells' directors "will continue to review the dividend and will make appropriate changes when warranted by the company's earnings performance, capital, and related trends."

Baltimore-Based Mortgage Company Folds

By DAVID LaGESSE

Maryland regulators and E.F. Hutton & Co. reluctantly shared the spotlight in the closing last week of the First American Mortgage Co., a Baltimore-based firm that wrote more than $100 million in high-risk mortgages.

First American closed the same day that a subsidiary of E.F. Hutton, the E.F. Hutton Mortgage Corp., charged First American with fraud and breach of contract in a federal court action stemming from a 1984 deal.



MARYLAND

First American originated loans for resale, of which E.F. Hutton had bought some $64.6 million. E.F. Hutton Mortgage, based in Little Rock, Ark., retained about $13 million and sold the rest.

Equitable Bancorp., a bank holding company in Baltimore, was the only other institution publicly to acknowledge an exposure, which it termed minimal, to First American.

First American's founder, Michael H. Clott, 34, denied that he cheated E.F. Hutton. He said the brokerage subsidiary understood that it was buying high-risk loans for a higher yield. He cited troubles caused by the firm's rapid growth, including "primitive" facilities, with documents stored in a shoe box.

First American's loans carry insurance from Rockwood Insurance Co., Rockwood, Pa., which reported $44 million in capital at June 30. Rockwood officials predicted that their company will suffer no material loss.

The spotlight on Maryland, though, echoed the state's earlier troubles with private thrifts and another mortgage banking firm. Mortgage firms like First American come under little supervision in most states, noted Susan Rittenhouse, Maryland's assistant attorney general. "I realize, though, that's no consolation," she added. ■

Quote

One would think that with over 2,000 issuers, there would be lots of competition, but that's not the case.

Rep. Charles Schumer, who criticized credit card issuers for generally high interest rates and released a list of card-issuing banks that offer low rates.

Unquote

CORRESPONDENT BANKING ANNUAL – PAGE 9

American Banker

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TODAY

Correspondent Banking Annual

The helping hands in correspondent relationships offer customers a wider range of services. In today's special section, Robert M. Garsson profiles the energetic division chief at Manufacturers Hanover and Mike Carroll looks at Chase's correspondent recovery. For these and other correspondent profiles, please turn to page... 9

FASTEST GROWING: The thrift industry has become the fastest growing sector of the correspondent banking market..... 1

HEATING UP: Competition is heating up among California providers of services to thrifts..... 1

FOREIGN BALANCES: A major reason for the decrease in foreign correspondent balances was a change in the classification of certain deposits..... 25

PEOPLE

The resume of 40-year-old Kristine M. Hammatt, executive vice president and chief financial officer of American Savings and Loan Association, shouts experience that stretches back to when she was 19..... 38

NO ROOM: The merger that created HNG/Internorth will squeeze out some banks..... 1

BRIDGE BUILDING: Chase Manhattan Ltd. is helping build bridges... 2

INTERNATIONAL BRIEFING: A major loophole in the Brazilian market is a law allowing for one-third foreign ownership in the country's 38 investment banks..... 2

POWER TO SUSPEND: The Federal Deposit Insurance Corp. is considering an appeal of a federal court ruling that affects the agency's power to suspend individuals..... 2

BID FOR SEAMEN'S: An investor group headed by two top officials of Lomas & Nettleton Financial Corp. has proposed to acquire New York's Seamen's Bank for Savings FSB..... 3

In the News..... 3

What Analysts Say..... 3

UNWORKABLE? The president of the San Francisco Fed thinks a risk-related capital rule is a good idea but that it is unworkable now..... 3

COUNSELOR'S CORNER: The well-capitalized and sophisticated acquirer will most likely be successful in an FSLIC-assisted thrift acquisition..... 4

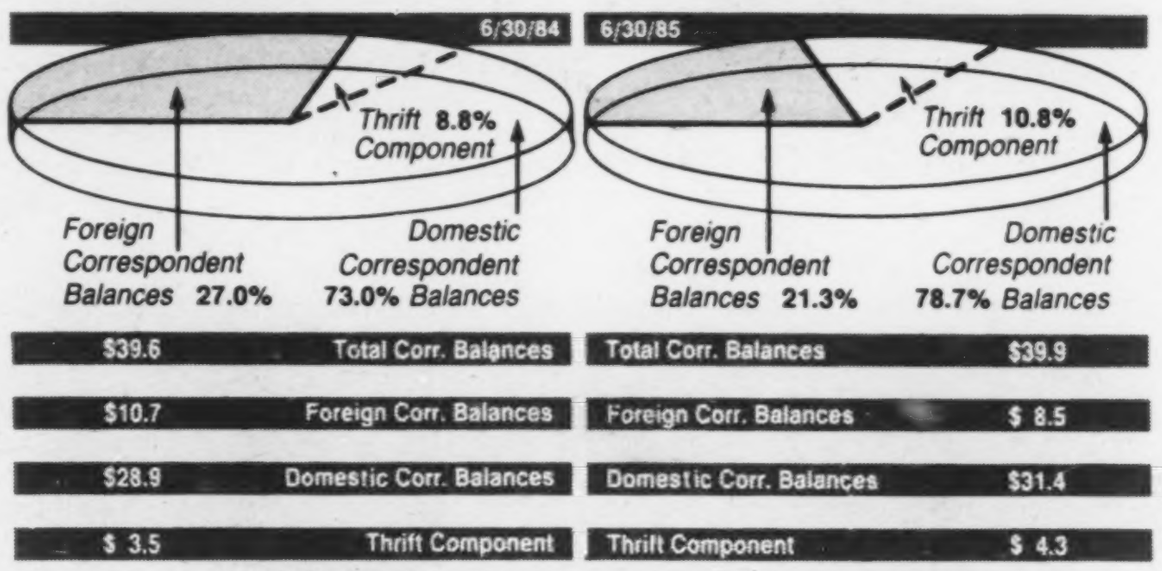
Executive Changes..... 7

BACK PAGE: Connecticut Bank and Trust Co. is making house calls... 48

Some of Banks' Best Customers Are Thrifts

The Composition of Total Correspondent Balances*

In billions of dollars



*For 336 banks with $10 million or more in total correspondent balances on 6/30/85.

Their Correspondent Balances Grew While Others' Stood Still

By L. MICHAEL CACACE

NEW YORK — The thrift industry has become the fastest growing sector of the correspondent banking market, *American Banker's* annual survey of correspondent banking shows.

Correspondent bank balances deposited by thrifts into U.S. commercial banks grew by 23% over the 12-month period ended June 30. In contrast, correspondent bank balances deposited by domestic and foreign commercial banks —which make up the main sector — were virtually unchanged. As a result, thrift correspondent balances now account for a larger share of the total correspondent deposit market — 10.8% this year, compared with an 8.8% share a year earlier.

Correspondent Banking Tables, Page 27

The main reason for the growth in the thrift correspondent sector is the growth in checking accounts offered by thrifts. Most of these checks are cleared by a thrift's correspondent bank. As the volume of checks at thrifts grows, bigger correspondent balances are required to compensate the banks for their clearing services.

According to data from the National Council of Savings Institutions and the Federal Home Loan Bank Board, checking accounts — demand deposit accounts, NOW accounts, and Super

➳ Correspondent: Page 22

Competition Heats Up in California Among Sellers of Services to Thrifts

By ROBERT M. GARSSON

NEW YORK — In California, the market for traditional thrift correspondent services is being squeezed on all sides.

In one corner are the age-old providers of check processing, wire transfers, demand deposit accounting, and other such traditional services: the correspondent banks.

Correspondent Banking

In another corner is one of the new providers, the Federal Reserve Bank of San Francisco, which is required under the 1980 Monetary Control Act to sell services equally to all depository institutions. A third competitor is the Federal Home Loan Bank of San Francisco, which has also set up check processing facilities that can, in at least some cases, provide better clearing times than the banks.

And looming in the future is a new competitor, the big California savings and loans that are bringing their check processing in-house. They are making big investments — a reader-sorter for processing checks can cost upwards of $1 million — and someday they will almost certainly want to take advantage of the excess capacity in their system by selling it to others.

"More and more we see competition from the big agencies that control the market, the Fed and the Home Loan Bank," said one traditional provider, John Hendricks, a senior vice president and manager of the financial institutions division at Union Bank, Los Angeles.

As a result, Mr. Hendricks said, Union Bank's mix of correspondent businesses is changing. Check processing, demand deposit accounting, and funds transfer still

➳ California: Page 24

Cutting Down on Creditors

HNG/Internorth to Go from 74 to 25 or 30 Banks, Treasurer Says

By LISABETH WEINER

CHICAGO — When two become one, somebody has to lose. And in the case of HNG/Internorth, some of the losers may be the company's bankers.

HNG/Internorth is the product of Internorth Inc.'s $2.3 billion acquisition of Houston Natural Gas Corp. last July. The end result — HNG/Internorth — spouts an estimated $12 billion in sales, $10.5 billion in assets, and a 37,000-mile natural gas transmission system that stretches from California to Florida and from Texas to the Canadian border.

Corporate Window

And it also means a total of 74 banks serving just the credit needs of the combined companies at the corporate level.

"We're just trying to get our arms around this, needless to say," said vice president and treasurer Donald Gullquist. "We're trying to get this down to a manageable bank group."

Manageable, Mr. Gullquist said, is a group of 25 to 30 banks that will be the source for the company's $3 billion of floating-rate debt. So indeed there will be some losers.

"If you have the major money center banks, the major Far Eastern banks, the European banks, and the Canadian banks, and they each take $100 million, that's $3 billion right there," he said. "All of our banks expect this consolidation." Still, he said, the bankers have been calling and letting him know that they want to remain in the credit.

It's not that Mr. Gullquist objects to any of his bankers. It's just that a group of 70 banks would be unmanageable if for no other reasons than logistics and

➳ Gullquist: Page 46

Top 5 Banks
Deposits Due All Banks

		Demand Deposits ($ Millions)
1	Manufacturers Hanover ...	$3,021
2	Chase Manhattan Bank....	2,409
3	Morgan Guaranty Trust ...	1,479
4	Bank of America	1,364
5	Citibank	1,331

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Sources, Definitions, and Definition Changes in the Survey

Definitions and Data Sources

The data for the *American Banker* survey of correspondent banking are taken from an *American Banker* questionnaire asking for information from the federal regulatory report of condition, or "call report," of June 30, 1985.

Specifically, the data requested were from schedule RC-E, Part 1, of the call report. This part asks for a breakdown of deposits for a bank and its domestic subsidiaries. In addition, banks with Edge banking subsidiaries were asked to report selected deposit data, as of June 30, for their domestic Edge banking offices from Federal Reserve form FR2886b, which is the Edge bank call report.

Domestic correspondent balances are defined as the sum of demand deposits due other depository institutions in the United States, plus demand deposits due other commercial banks in the United States. Other depository institutions include mutual and stock savings banks, building or savings and loan associations, homestead associations, cooperative banks, and credit unions. Demand deposits due these other depository institutions are called **correspondent balances due thrift institutions.**

Foreign correspondent balances are the the sum of demand deposits due other banks in foreign countries plus demand deposits due foreign government and official institutions. Added to these foreign correspondent balances are the **clearing balances** in the bank's domestic Edge bank subsidiaries.

Clearing balances are the sum of the Edge bank's transaction accounts due foreign government and official institutions, plus transaction accounts due commercial banks in the U.S. and transaction accounts due banks in foreign countries.

Total correspondent balances are defined as the sum of domestic correspondent balances plus foreign correspondent balances.

Changes in Definitions

This year, the *American Banker* changed its definition of domestic and foreign correspondent balances. The change reflected the change in the deposit schedule of the call report, which eliminated the breakdown of "demand deposits due commercial banks in the U.S." into its two component parts: "demand deposits due other commercial banks in the U.S." and "demand deposits due the U.S. branches and agencies of foreign banks."

The breakdown was important, because "demand deposits due other commercial banks in the U.S." are domestic correspondent balances and "demand deposits due the U.S. branches and agencies of foreign banks" are foreign correspondent balances. Since the breakdown no longer is available, the entire amount reported by banks under "demand deposits due commercial banks in the U.S." will be classified by the *American Banker* as **domestic balances.**

The elimination of the deposit breakdown causes a significant problem in identification of domestic and foreign correspondent balances for the major New York City banks, which clear many of their foreign trade, foreign exchange, and foreign correspondent transactions through the U.S. branches and agencies of foreign banks. These foreign bank-related transactions will be classified as domestic balances, as they were prior to 1978. The 1978 changes in the call report created the breakdown of U.S. commercial bank deposits between branches and agencies and other U.S. banks. Therefore, for the large New York banks, total correspondent balances may now be the best overall measure of a bank's correspondent banking activity.

The impact of the change can be seen by looking at the two pie charts on page 1. In 1984, foreign correspondent balances accounted for 27% of total correspondent balances, and domestic correspondent balances accounted for 73%. This year, with the U.S. branches and agencies included in the domestic totals, domestic balances account for 78.7% of total balances, and foreign balances account for only 21.3%. The *American Banker* estimates that demand deposits due the U.S. branches and agencies of foreign banks account for $1.8 billion, or 4.5%, of total correspondent balances at midyear. ■

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CIC GROUP CONSOLIDATED BALANCE SHEET

I.Consolidated Balance Sheets of the Company and its Consolidated Subsidiaries As at 31st December, 1984 (In millions of dollars)

ASSETS

Cash, balances with central banks and government depositories	312
Banks and financial institutions	7,222
Treasury and other bills purchased firm or under agreements to resell	3,182
Loans, discounts and overdrafts	12,196
Accrued interest and other assets	4,000
Marketable securities	422
Investment in non-consolidated companies	101
Subordinated loans	134
Equity in net assets of companies consolidated under the equity method	56
Property and equipment less accumulated depreciation	285
Total Assets	27,910

Liabilities and Shareholders' Equity

Balance with central bank and government depositories, banks and financial institutions	8,136
Securities and bills sold firm or under purchase agreements	2,868
Deposits by customers	12,101
Accrued charges and other liabilities	3,073
Long-term debt	896
Subordinated borrowings	—
Allowance for loans and other losses	242
Goodwill, net	15
Shareholders' equity	388
Share capital	108
Consolidated retained earnings and revaluation reserve	243
Translation adjustment	8
Consolidated net income	29
Non-group interest	191
Total Liabilities and Shareholders' Equity	27,910
Commitments and contingent liabilities	4,809

II.Statements of Income of the Company and its Consolidated Subsidiaries Year ended 31st December, 1984 (In millions of dollars)

Banking revenues	2,915
Banking expenses	(1,872)
Interest and dividends from securities	52
Net revenues from banking operations	1,095
Other income	14
Total revenues	1,109
Salaries, wages and employee benefits	(596)
Taxes and other operating expenses	(256)
Total operating expenses	(852)
Gross operating income	257
Depreciation of property and equipment	(37)
Operating provisions	(143)
Net income (loss) on property and equipment transactions	(0.45)
Net income (loss) and provisions on security transactions	(3)
Income taxes	(36)
Equity in net income of companies consolidated under the equity method	7
Income benefit distributed to employees	(2)

Consolidated Net Income

Non-group interest	13
The CIC Group	29

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Correspondent . . .

Continued from Page 1

NOW accounts — at savings banks and savings and loans totaled $39.95 billion on June 30, up 22.5% from $32.62 billion on the same day in 1984.

Over the year ended June 30, domestic and international commercial bank correspondent balances, which combined comprise about 90% of total correspondent balances, were down a modest 1.1%. The lack of growth in the sector is attributable to two factors.

First, a recent survey of correspondent bankers conducted by Robert Knight Associates of Alliance, Neb., finds that the prices for many correspondent services declined marginally over the period. If interest rates and services do not change dramatically over a period, a decline in the price of correspondent services would cause correspondent balances to fall, because the bulk of correspondent services are paid for by compensating demand balances maintained by respondent banks with their correspondent bank.

Interest rates did not change substantially. Correspondent banks generally use the 90-day Treasury bill rate to value correspondent balances. This rate, which is called the "earnings credit factor," fell by only 55 basis points over the year ending June 30. Also, there is no indication of a sizable shift in the demand for correspondent services by respondent banks.

The second factor that helps to explain the movement in commercial bank correspondent balances is the volatility of these balances. Sharp day-to-day fluctuations in these balances are not uncommon. Since the *American Banker* examines data for only two points in time, the aggregate data are affected by this volatility.

There were 336 banks in the United States with total correspondent balances of $10 million or more on June 30. These deposits totaled $39.9 billion, up 0.8% from $39.6 billion for the same banks a year earlier.

The thrift correspondent balance component of total correspondent balances rose 23% over the 12-month period ended June 30. The 336 banks had $4.3 billion in thrift correspondent balances at midyear 1985, or 10.8% of total correspondent balances. A year earlier, these banks had $3.5 billion in

▶▶ Correspondent: Page 23

Thrifts Take Bigger Slice of Correspondent Banking Pie

Continued from Page 22

thrift correspondent balances, or 8.8% of the midyear 1984 total.

The domestic and international commercial bank component of total correspondent balances fell 1.2% over the period. The 336 banks had $35.6 billion in these balances on June 30, down from $36.1 billion the year before.

Total correspondent balances are the sum of demand deposits due: U.S. commercial banks, U.S. thrifts, foreign banks, and foreign government and official institutions. The sum of demand deposits due U.S. commercial banks and thrifts are called domestic correspondent balances, and the sum of demand deposits due foreign banks and foreign government and official institutions are called foreign correspondent balances. Data are for the bank and its domestic and Edge bank subsidiaries. A listing of the top 336 banks in total correspondent balances appears on pages 28 to 31.

Thrift correspondent balances are the sum of demand deposits due: mutual and stock savings banks, building and savings and loan associations, homestead associations, cooperative banks, and credit unions. Data are from the banks' federal regulatory report of condition, or "call report." Before 1984, only deposits due mutual savings banks were reported on the call report. In 1984, banks for the first time were required to report deposits due all thrift institutions. A listing of the top 100 banks in thrift correspondent balances appears on pages 35 and 36.

Definition Changes Reflect Fed

This year the *American Banker* changed its definition of domestic and foreign correspondent balances to reflect changes in the federal regulatory report of condition. The change moved a sizable deposit category — demand deposits due the U.S. branches and agencies of foreign banks — from foreign correspondent balances to domestic correspondent balances.

Although total correspondent balance comparisons are not affected, domestic and foreign correspondent balance comparisons of the June 1985 data and the June 1984 data are affected. *American Banker* estimates that demand deposits due the U.S. branches and agencies of foreign banks account for approximately 4.5% of total correspondent balances.

For more detailed information concerning the definitions, the changes in definitions, and data sources used in today's survey, see the story beginning on page 22.

The Manufacturers Hanover Trust Co. retained its position as the nation's top correspondent banker, with $3.02 billion in total correspondent balances at midyear. In addition, Manufacturers Hanover ranked as the top bank in domestic correspondent balances, with $1.64 billion; and in foreign correspondent balances, with $1.38 billion.

For the second consecutive year, Union Bank of Los Angeles was the top bank in thrift correspondent balances, with $402 million on June 30, up 19.5% from $336 million the year before.

Among the top 10 banks in thrift correspondent balances, Citibank of New York posted the largest percentage gain in these deposits. Thrift deposits rose 137% from $30 million to $71 million, making Citibank the ninth largest commercial bank in thrift correspondent balances at midyear.

Six correspondent banking tables are published in today's edition — the ta-

➳ **Correspondent: Page 24**

Dear Reader, How Are We Doing?

The American Banker wants very much to make sure its statistical listings for the financial services industry meet your information needs. So would you spend a moment to give us some feedback on the **Correspondent Banking** tables that appear in today's edition? Over the past year we have incorporated many of your suggestions to provide more meaningful information. Please return this questionnaire to L. Michael Cacace, Statistical Chief, American Banker, One State Street Plaza, New York, N.Y. 10004 (212) 943-4836.

(1.) How would you **change** the tabulation to make it more useful? What would you add?

_____

_____

_____

(2.) What do you like **best** about this tabulation?

_____

_____

(3.) What do you like **least** about this tabulation?

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(4.) **How** do you use this information in your work?

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(5.) What **new** statistical survey would you like to see?

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Name (optional)_____

Title_____

Company_____

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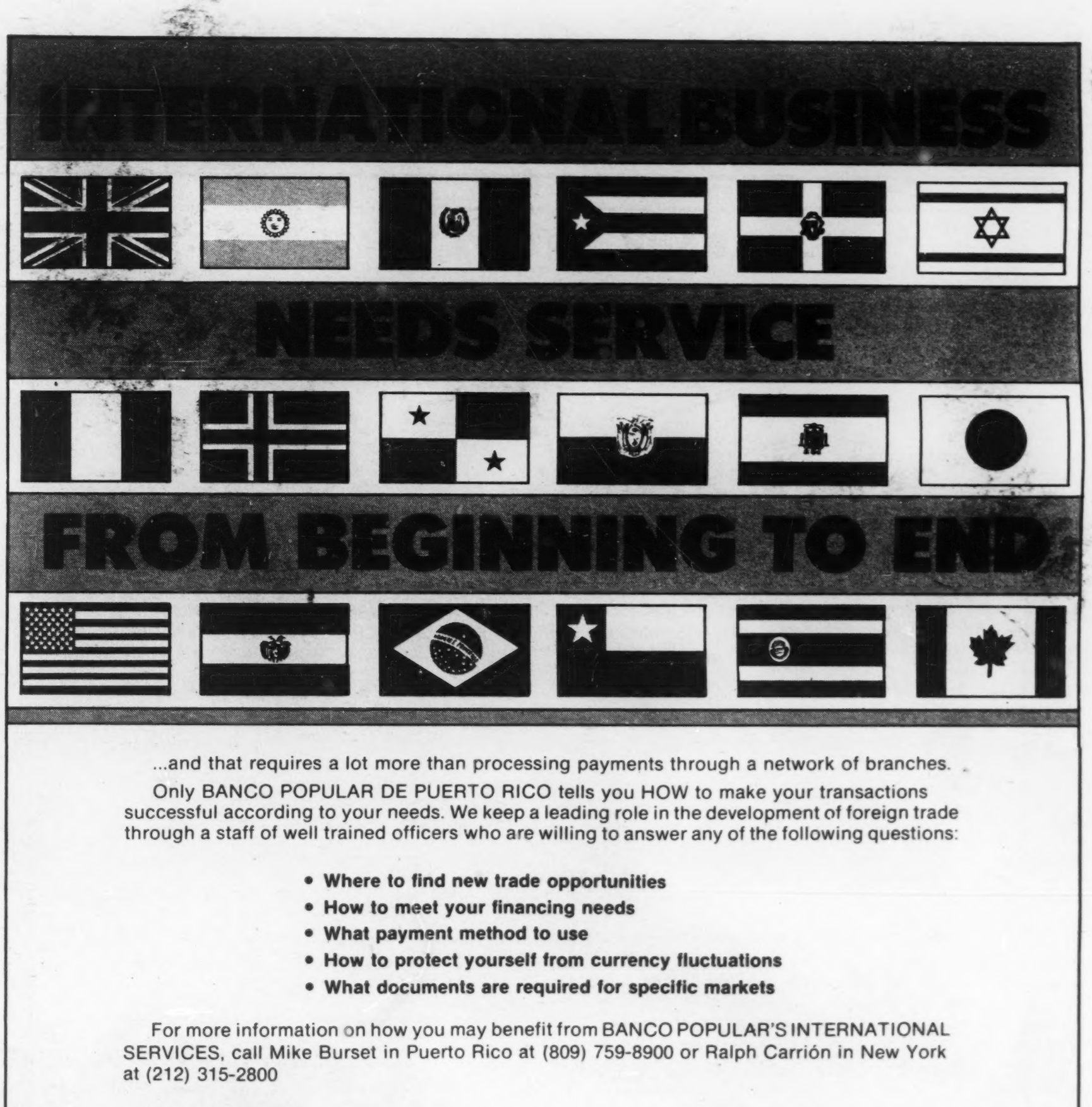

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